

Members

Sen. Joseph Harrison, Chairperson
Sen. Thomas Weatherwax
Sen. Allie Craycraft
Sen. Larry Lutz
Rep. Thomas Kromkowski
Rep. Ron Liggett
Rep. Larry Buell
Rep. Richard Mangus
Steve Meno
Kip White
William Gettings, Jr.
Connie Lux



PENSION MANAGEMENT OVERSIGHT COMMISSION

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MEETING MINUTES¹

Meeting Date: October 21, 2003
Meeting Time: 1:30 P.M.
Meeting Place: State House, 200 W. Washington St.,
Room 431
Meeting City: Indianapolis, Indiana
Meeting Number: 2

Members Present: Sen. Joseph Harrison, Chairperson; Sen. Thomas Weatherwax;
Sen. Larry Lutz; Rep. Thomas Kromkowski; Rep. Ron Liggett; Rep.
Larry Buell; Rep. Richard Mangus; Steve Meno; Kip White; William
Gettings, Jr..

Members Absent: Sen. Allie Craycraft; Connie Lux.

Senator Joseph Harrison, chair of the Pension Management Oversight Commission (PMOC or Commission), called the meeting to order at 1:35 p.m. He called on Craig Hartzler, executive director of the Public Employees' Retirement Fund (PERF), to provide a PERF update.

I. Update on the Public Employees' Retirement Fund (PERF)

Mr. Hartzler distributed a handout summarizing his remarks on PERF's activities in six

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areas: investments, customer service, recent events, security measures, workload, and communications (Exhibit 1). He introduced Bruce Kimery, PERF's chief benefits officer.

A. Investments

Mr. Hartzler reviewed PERF's investment policy: Large Cap Equity-34%; Fixed Income-34%; Small Cap Equity-8%; International Equity-7%; Global Equity-7%; Mid Cap Equity-5%; Alternatives-5%; and Cash-0%. As of June 30, 2003, PERF's actual investments were: Large Cap Equity-33%; Fixed Income-38%; Small Cap Equity-6%; International Equity-9%; Global Equity-5%; Mid Cap Equity-8%; Alternatives-0%; and Cash-1%.

The performance summary for the Consolidated Retirement Investment Fund (CRIF) indicated that, as of June 30, 2003, the total fund's market value (gross of fees) was \$9.7 billion. The investment return for the last six months was 10.3%. An asset summary of the Annuity Savings Account (ASA), as of June 30, 2003, showed that the majority of participants have chosen the Guaranteed Fund investment option. The Guaranteed Fund had a total market value of \$1.6 billion. The Police and Fire Pension Relief Fund, as of June 30, 2003, had a total market value of \$467.6 million and a year-to-date investment return of 6.2%.

B. Customer Service

Mr. Hartzler stated that PERF's goal is to provide world class customer service to its members, beneficiaries, and employers. He listed several actions that PERF is taking to improve customer service. One goal is to start paying benefits to retirees within 60 days of the date of retirement. Currently the benefit start date is about 70 days after the date of retirement. PERF has increased the frequency of refund check runs to weekly instead of monthly. PERF prints only the last four digits of Social Security Numbers (SSN) on statements, checks, and direct deposit notices. Additional customer service personnel have been hired. Finally, PERF is remodeling space on the first floor of its building to add a customer service center.

PERF serves 1,044 employers. The State of Indiana is the largest employer with Indiana University being the second largest. Mr. Hartzler explained that PERF's initiatives with employers include employer advisory groups, electronic reporting, and outreach services.

C. Recent Events

Mr. Hartzler provided a status report on the cases involving former PERF employees. Mr. Scott and Ms. Stone are in prison, and Mr. Spalding is awaiting sentencing. Mr. Spalding and Ms. Stone were temporary employees. As a result of PERF learning that the temporary agencies did not perform background checks on employees sent to PERF, PERF has eliminated the use of temporary agencies. PERF is cooperating fully with the law enforcement agencies and the people performing forensic audits. Mr. Hartzler offered to provide additional information about the cases to anyone who is interested. He also invited Commission members to tour PERF's offices.

D. Security Measures

PERF is pursuing security measures in three areas: cyber security, operational security, and physical security. PERF first engaged a global cyber security firm to perform a 12 week study analyzing PERF's technical operations. The report has been presented to the PERF board. The report's recommendations revolve around limiting access by employees to particular data within PERF's information technology (IT) system, ensuring the integrity

of PERF's computer network, and safeguarding the network against unauthorized external access. PERF, in partnership with the Teachers' Retirement Fund (TRF), is implementing the study's recommendations.

To identify operational security issues PERF is conducting an internal audit to review PERF's internal controls. Specific actions to increase security include conducting monthly searches for deceased members. PERF is performing a "death match" against all inactive accounts with a positive balance and is in the process of "freezing" those accounts. PERF also conducted Indiana criminal history background checks and fingerprinted all current employees and will perform these checks on future hires. PERF is exploring the use of a membership number as an identifier rather than using the member's SSN. TRF uses membership numbers.

Mr. Hartzler outlined efforts to improve PERF's physical security. PERF is in negotiations with a local firm to develop a disaster recovery plan. PERF wants to secure another operational location ("hot site") that PERF could use in the event of a disaster. Unauthorized public access to PERF's building is also being limited. Mr. Hartzler related the unsettling experience of a FedEx delivery person walking directly from the street into Mr. Hartzler's office without being stopped or challenged.

E. Workload

Mr. Hartzler briefly reviewed graphs showing PERF's benefits workload (regular retirements, disability, death/survivor, and refunds), the number of new retirements processed, and membership records processing for new hires.

F. Member Communications

Mr. Hartzler discussed the various ways in which PERF communicates with its members. These include annual reports, quarterly statements of account, newsletters, the call center that opened May 15, 2002, and the PERF web site (www.perf.in.gov). PERF is also in contact with several statewide associations, including the Retired Indiana Public Employees Association, the Association of Indiana Counties, and the Indiana Association of Cities and Towns.

G. Implementation of Legislation

Mr. Hartzler reported on the implementation of recent PERF legislation. PERF is determining which retirees are eligible for the \$180 minimum monthly benefit. Mr. Hartzler expressed surprise at the large number of retirees who currently are not receiving at least \$180 as a monthly benefit. He expressed appreciation to the General Assembly for enacting this increase.

Mr. Hartzler reported that PERF recently received a private letter ruling from the Internal Revenue Service (IRS) which will allow a member to make pre-tax voluntary contributions of up to 10% of the member's compensation to the member's ASA. Currently a member may make these contributions on a post-tax basis. Mr. Hartzler discussed some of the restrictions required by the IRS in order for the contributions to receive pre-tax treatment.

Mr. Hartzler discussed the pilot program for the Legislators' Defined Contribution Plan which will go into effective January 1, 2004. The pilot program will allow for more frequent investment direction changes and daily valuations of the legislators' accounts.

Representative Liggett asked who is conducting PERF's internal audit. Mr. Hartzler

responded that PERF's internal audit is being conducted by Forrest Bowman, an Indianapolis attorney, and Crowe Chizek, a South Bend firm. Crowe Chizek is using its Oak Brook, Illinois, office for the engagement because of that office's expertise.

In response to a question from Representative Buell, Mr Hartzer stated that PERF is more secure now than it was on July 2, 2002, the last date Mr. Spalding worked for the fund, but improvements are needed and are being undertaken.

In response to Mr. White's question, Mr. Hartzer said that PERF currently employs two internal auditors on its staff, one of whom currently works full-time on the internal audit of PERF's internal controls.

Mr. Hartzer discussed the length of time between the date a member retires and the date a member first receives a benefit check in response to Representative Mangus' question. Mr. Hartzer said that last year the length of time between a member's retirement and the first receipt of a benefit check was 180 days. PERF's goal is to reduce that period to 60 days. Currently the period is 70 days. Part of the delay is attributable to getting final salary and service time from the retiree's employer.

II. Funding Status for Police and Fire Pension Funds

Senator Harrison called on Tom Miller representing the Indiana Association of Firefighters. Mr. Miller said that his organization and the Fraternal Order of Police represented by Leo Blackwell thank the Commission for looking at the police and fire pension funding issue this interim. While no legislation is being proposed this year, Mr. Miller asked that the issue remain on the front burner toward the 2007 time period when current fund relief provisions will expire.

Matt Brase of the Indiana Association of Cities and Towns (IACT) echoed Mr. Miller's comments.

III. Review of the State's Deferred Compensation Program

Senator Harrison called on Jeffrey Heinzmann, Deputy Auditor of Policy and Legal Counsel, Auditor of State's Office. Mr. Heinzmann had no further comments on this topic. Senator Harrison suggested that the Commission accept the Deferred Compensation Plan's report as furnished to the Commission at its September 12th meeting.

IV. Judges' Retirement Fund Issues

A. Cost of living adjustment (COLA) for members of the 1985 Judges' Retirement Fund (Preliminary Draft 3308)

Staff explained Preliminary Draft (PD) 3308 (Exhibit 2) which provides a cost of living adjustment (COLA) for participants, survivors, and beneficiaries of the 1985 Judges' Retirement Fund at the same percentages and under the same conditions as the monthly benefit is increased for PERF members.

B. The addition of full-time magistrates as members of the 1985 Judges' Retirement Fund (Preliminary Draft 3315)

Staff explained PD 3315 (Exhibit 3) which allows a person serving as a full-time magistrate on July 1, 2004, and requires a person who begins serving as a full-time magistrate after that date, to become a participant in the judges' 1985 benefit system. PD 3315 also allows

magistrates who are participants in the judges' 1985 benefit system to purchase, at full actuarial cost, service credit for prior service covered by an Indiana public employees' retirement fund.

Fiscal notes for these proposals were distributed to Commission members.

Senator Weatherwax asked about the history of similar legislation introduced during the 2003 regular session. Representative Kromkowski reported that the legislation was assigned to the House Committee on Labor and Employment and not heard.

Mr. White suggested that the definition of "services" in PD 3315 be amended to include "magistrates". Staff agreed to review the definition and make this change.

Mr. Gettings asked what percentage of a judge's salary is replaced by the judge's pension as compared to the percentage of a PERF member's salary replaced by the PERF benefit. Doug Todd of McCready & Keene, actuaries for the Judges' Retirement System, responded that a judge's benefit replaces a higher percentage of the judge's salary than a PERF benefit replaces the salary of a PERF member. The benefit for a judge with 12 years of service is 50% of the judge's salary at the time of separation from service. The percentage increases to 60% for a judge with 22 years of service. A PERF benefit is determined at 1.1% of the average annual compensation for the highest 20 calendar quarters of service times the years of creditable service. For example, the percentage for a PERF member with 33 years of service is 33%.

Motions were made and seconded to recommend the introduction of PD 3308 and PD 3315 to the 2004 session of the General Assembly. The Commission voted 8-2 to recommend PD 3308 (COLA). The Commission further voted 8-2 to recommend PD 3315 (magistrates).

Senator Harrison scheduled the Commission's next meeting for 1:30 p.m. on Thursday, October 30, 2003. The Commission must meet once more to adopt a final report.

Senator Harrison adjourned the meeting at 2:20 p.m.